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SUBJECT: GOR PROMOTES "INNOVATION ECONOMY"

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¶1. (SBU) Summary: Russia continues to promote innovation as a means to harness its scientific expertise and diversify its economy beyond oil and gas exports. The Federation Council and Duma recently held hearings on stimulating innovation. The GOR also promoted innovation through sponsorship of the 8th Annual "Innovation Salon." The GOR is directing billions of dollars to promote innovation through "State Corporations." A key goal is to forge linkages between research centers and the private sector and commercialize research. End Summary.

¶2. (U) On February 27, the Federation Council's Education and Science Committee convened parliamentary hearings on "Priorities in Supporting Science and Mechanisms for Stimulating Innovation." At the hearing, Sergei Mazurenko, Head of Federal Agency for Science and Innovation (FASI), reported that federal funds for developing innovation grew from 2 billion rubles (USD 86 million) in 2002 to 11 billion rubles (USD 471 million) in 2008. The GOR currently sponsors thirteen initiatives to stimulate the development of high technology products. The GOR has allocated over 130 billion rubles (USD 5.5 billion) to stimulate long-term innovation in the economy. Mazurenko plans to seek another 130 billion rubles from non-budgetary funds to further develop the areas of nanoindustry and energy efficiency.

¶3. (U) Leonid Melamed, Head of the Russian Nanotechnology Corporation (Rosnanotech), testified at the Federation Council that the Russian business community's attitude toward innovation and nanotechnology is still evolving. To encourage the shift from a resource-driven to an innovation-driven economy, Melamed advocated the commercialization of innovation in Russia. He noted that globally, small private companies often develop new technology. In Russia, these enterprises are still in an embryonic stage. As a result of the hearing, the Committee recommended that the GOR propose new legislation on technology transfer, intellectual property rights and greater state funding of scientific research to stimulate innovation.

¶4. (SBU) On March 31, the Embassy attended the State Duma- held hearings on "Legislative Support for the Innovative Development of the Economy" aimed at outlining strategies for innovation. Valeriy Komissarov, Duma IT and Communication Committee (ITCC) Chairman, proposed introducing a special tax regime to grant favorable tax treatment to IT companies. Ilya Ponomarev, ITCC member, noted the disconnect in Russia between business and science. He cited a lack of entrepreneurial traditions, weak business infrastructure and a shortage of entrepreneurs as major hurdles facing the promotion of innovation. Olga Uskova, President of the National Association for Innovation and IT Development, voiced skepticism regarding the new wave of state corporations being created by the GOR (such as Rosnanotech.) She views these state-controlled business incubators as vehicles for large cash transfers with grossly inadequate checks and balances and minimal transparency.

¶5. (U) On March 3-6, the Embassy also attended Moscow's 8th International Salon of Innovations and Investments. The Russian Ministry of Education and Science, the Federal Agency for Science and Innovation, the Duma Science and Technology Committee, the Russian Academy of Science, the Ministry of Economic Development and Trade and the Ministry of Telecommunications and Information sponsored the show. The goal was to introduce Russian innovations to international markets. Six hundred organizations from 22 Russian regions, plus exhibitors from 16 other countries, displayed over 12,000 inventions. They came from a wide range of industries, including nuclear, aerospace and agriculture.

¶6. (SBU) "Nano" was the buzzword at the show, showing up in a broad array of products. One example was the Institute of New Carbon Materials and Technologies (INCMT), based in Moscow. The company produces environmentally-friendly fire-proof materials used in building and construction. It has over one hundred patents and claims more than 3,000 customers in Russia, the CIS, Europe, and China. Similarly, Tomsk State University advertised its "Nanocluster" science and education center and displayed nano products it developed, such as fire-proof paint and ceramic materials. There were also traditional technologies redesigned for new applications. Zlatoust machine-building enterprise (Chelyabinsk Oblast) displayed hospital beds manufactured to cater to the needs of new-born babies and patients with burns.

¶7. (SBU) Comment: Russia's substantial science base and a well-developed science and technology education system provide a solid foundation for developing an innovation economy. However, Russia's private sector, particularly in the area of small enterprise, has lagged in investing in research and development. The challenge for the new GOR State Corporations, like Rosnanotech, will be to foster linkages between the research sector and the private sector to stimulate innovation and promote

commercialization. The GOR's commitment of billions of dollars behind the concept is clear; what remains to be seen is whether the model will, in fact, work.

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